Generation rent grows up

In our latest update on the real estate sector we examine the UK's shift to the rental model as young families are priced out of home ownership, the growth in the build-to-rent market to meet this demand, and the effects and opportunities for residential developers, investors and local authority planning.

Some would call it an obsession nearly as great as the UK's eccentric hang-up with the weather, yet home ownership – traditionally a long-held aspiration – is being eschewed by a generation priced out of urban homes, less materialistic and more focused on experience and lifestyle. Instead, Europe's well-established multi-family model is on the rise and a new phase of build-to-rent properties is being heralded as both an investment model for institutions and one answer to tough house build targets for local authorities.

Build to Rent

The build-to-rent market, while still in its relative infancy, is finally finding its feet in the UK.

With a fractured house building sector that cannot, or perhaps refuses to, keep up with consumer demand or government new home expectations, and elements of the populace feeling increasingly marginalised as potential home buyers, preconceptions about the rental market are no longer relevant.

The image of young single tenants sharing a flat or house, living in a vibrant part of a city and close to their work as they ascend the career ladder is outdated. Instead, the modern renter may be a young professional, but they are increasingly unlikely to aspire to home ownership, rather seeing their rental property as a long-term, lifestyle choice. Millennial attitudes to life extend to all aspects of the way they live, from where they work and who they choose to work for, through to an emphasis on experience over acquisition and a strong desire to live in the heart of the action.

But equally, the new renter may be a retiree who has decided they no longer want the hassle of a mortgage or home repairs and prefers instead a social community setting. Or they may be a young family, still wishing to enjoy the infrastructure and facilities of urban living but with access to good school and community facilities. Many renters are looking for long-term places they can call home.

This change in the renting model has attracted a new generation of developers and investors, keen to build and hold multi-family units in urban locations and viewing their residential holdings in the same way as their office and retail assets. It's a model straight out of the European playbook, but for the UK it is a bold new world.

The dramatic shift in demographics is laid out in the most recent English Housing Survey, which confirmed that more than 1.5 million people aged 65 and over now live in rented accommodation. The jump in those renting privately over the past decade is significant. In 2007, 254,000 older people rented privately, but that figure has now risen to 414,000 and according to some estimates, a third of those aged 60+ could be renting privately by 2040.

Build-to-rent also needs to serve increasing numbers of families, renters with pets, and people who work from home. The desire for shared facilities is part of this shift to a new customer base for rental accommodation. Professional shared workspaces where tenants can hot desk with their laptops, or bring a business contact for a meeting, on-site cafés, crèche services, proximate playgrounds and good schools are all requirements of modern developments. Some build-to-rent properties even include a communal library, gym, or dining rooms for hire.

Residential Developers and Planning Policy

The residential industry is keen to respond and the key difference between the traditional rental offer, financed by small investors (i.e. private landlords), and the new model is the influx of institutional investors, the same people who finance offices, shopping centres, logistics hubs and the like. The next wave of build-to-rent will be purpose-built, developed for rent only and backed by pension funds looking for stable returns and a long-term hold.

Developers, for their part, will not only build but maintain and service the multi-unit properties, developing a brand around their approach to tenant liaison, facilities and services.

From an all but standing start, the sector is accelerating. According to a recent study, the total number of build-to-rent homes completed – under construction and in planning – across the UK has increased by 30% in the past year alone.

Data from the British Property Federation (BPF) shows that there are now 117,893 build-to-rent homes in the UK – ranging from completed to planned – compared with a total of 90,761 at the end of Q1 2017. The number of completions has increased by 45%, from 14,371 to 20,863 during the same period. The number of build-to-rent homes under construction has increased by 47%.

Not surprisingly, given the price pressures in the capital, London has the largest number of build-to-rent homes at 60,530, followed by the North West (29,600) and the South East (7,101). Ian Fletcher, Director of Real Estate Policy at BPF, said of the findings: "Build-to-rent is evolving quickly, with significant delivery in the regions and more houses, rather than just apartments, coming forward.

"Policy is also adapting, as to date the sector has grown without a planning blueprint. This is now changing. With the draft revised National Planning Policy Framework, local authorities will now have to specifically identify how many new rental homes their respective areas need.

"This has never before been enshrined in UK planning policy. Clearly, there are exemplar local authorities across the UK leading the charge, giving build-to-rent a chance to expand in the regions and demonstrate that it can cater for a wider range of people."

BPF Chief Executive Melanie Leech said that improving and increasing the UK housing stock remains "as always the number one political priority", with the BPF helping to support the expansion of the build-to-rent market and educating local authorities about its potential.

Major Projects Reflect Changing Market

Some standout projects are in the pipeline. Grosvenor Britain & Ireland recently showcased its master plan for one of London's largest build-to-rent developments at MIPIM in Cannes, with a project that will deliver 1,350 new rental homes on the 12-acre site of a former biscuit factory. The company aims to revitalise the neighbourhood and promote build-to-rent as one solution for London's inadequate housing supply.

Katherine Rodgers, Director of Development, Grosvenor Britain & Ireland, said that Grosvenor is "committing to generation rent" and wants to deliver a number of homes on a range of discounted market rents and manage them for the long term.

"Bermondsey is a great example of an area where a pinched middle neither qualify for social housing nor have enough money for a deposit on a mortgage," she said. "Build-to rent provides an opportunity for people to stay in the area and also allows us to create mixed communities."

Grosvenor's £500m investment plan, designed by architect Kohn Pedersen Fox Associates, incorporates a 600-place secondary school, over 10,000 sq m of office space and 10,000 sq m of retail, culture, leisure, community and food and drink, alongside 25,000 sq m of new and improved streetscapes and play space, 140 new planted trees and 400 sq m of new public lawns. Network Rail is also proposing that 165 underused railway arches on the site be refurbished and occupied by offices, shops, restaurants, leisure and light industrial businesses.

Representing higher end offers beyond London, build-to-rent specialist Moda is aiming to develop three schemes in regional cities around the UK each year, having determined that there remains a significant gap in the market for a premium, highly serviced offer.

Johnny Caddick, Managing Director of Moda, said the company objective is to make "rental an aspiration" for a new generation of occupiers, with a branded offer that includes a range of upscale facilities and services.

Moda has a development pipeline of 6,000 apartments in cities including Manchester, Birmingham, Edinburgh, Glasgow, Leeds and Liverpool, with a gross development value of £1.3bn. Typically, each development will contain over 300 apartments and the first development to open, in early 2019, will be Angel Gardens in Manchester. It will have 466 high-end rental apartments in a 35-storey tower and will include a host of on-site amenities such as outdoor private dining, residents' cinema, health and well-being space, games rooms and an executive car club.

A Fledgling Marketplace

Such approaches – just two examples among a myriad of new schemes – illustrate that the rental market is being completely rethought by specialists, and local authorities, under extreme pressure to deliver on housing needs, are having to become more flexible in their own plans. Build-to-rent is not widely understood and there are some councils who clearly have misgivings. Bodies such as the BPF are on a charm offensive to put forward the potential advantages.

Whether people rent by choice or as a result of an inability to afford to purchase property, the UK is already behind the curve in terms of adapting its service design in this respect – the rental market has already changed significantly, and the market has much to do to catch up and provide the homes that the country needs.

"Build-to-rent has generated huge traction now and we will be opening more sites around the UK and in London," said Caddick. "You just need to look to the US investor ownership model to see there is really no limit to the size of the potential market in the UK.

"Institutional investment owns only around 1% of residential at the moment, but that is set to change."

Build-to-rent: What, Where and When

Although London is currently the UK's build-to-rent capital, partly due to its proportionately higher number of renters compared with owner-occupiers, the UK regions have begun to gain on the city, with hotspots popping up across the country.

Since the government granted build-to-rent more emphasis in its national planning policy, the sector has made huge leaps forward and local authorities outside London have begun to open up to more build-to-rent developments.

Current hotspots include Manchester, Liverpool and Bristol, which all have huge numbers of build-to-rent units completed, under construction or in the planning phase.

The North West region had 29,600 such homes by the end of quarter one this year – the highest after London – followed by the South East with 7,101, while the West Midlands had 6,378, according to research by the British Property Federation (BPF).

Across the country, construction numbers in the sector have risen by an average of 30% in Q1 2018 compared with Q1 2017, with a 45% rise in the number of completed developments (from 14,371 to 20,863), a 47% jump in those under construction (from 53,982 to 63,955) and a 19% rise in the number in planning (from 90,761 to 117,893).

London now represents 51% of the total UK build-to-rent market, with the other 49% across the country's regional cities combined, but the gap is narrowing.

Chief among the investment benefits of build-to-rent is that it provides a steady rental income, with some developers offering guaranteed rent for a set period after purchase.

While primarily targeting institutional investors, individuals can also invest, while councils and housing associations are also getting involved.

In the capital, London mayor Sadiq Khan recently set a target for 35% of developments to be affordable housing, and developers offering this in the capital can be fast-tracked through the planning process.

According to advisor Savills, 17% of all the schemes in planning or under construction now consist of houses as well as flats, as the sector attempts to address the family as well as younger tenant market.

For Further Information

If you would like to discuss any of the issues raised in this update or would like to know further details about the services we provide to the sector, please contact me:

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